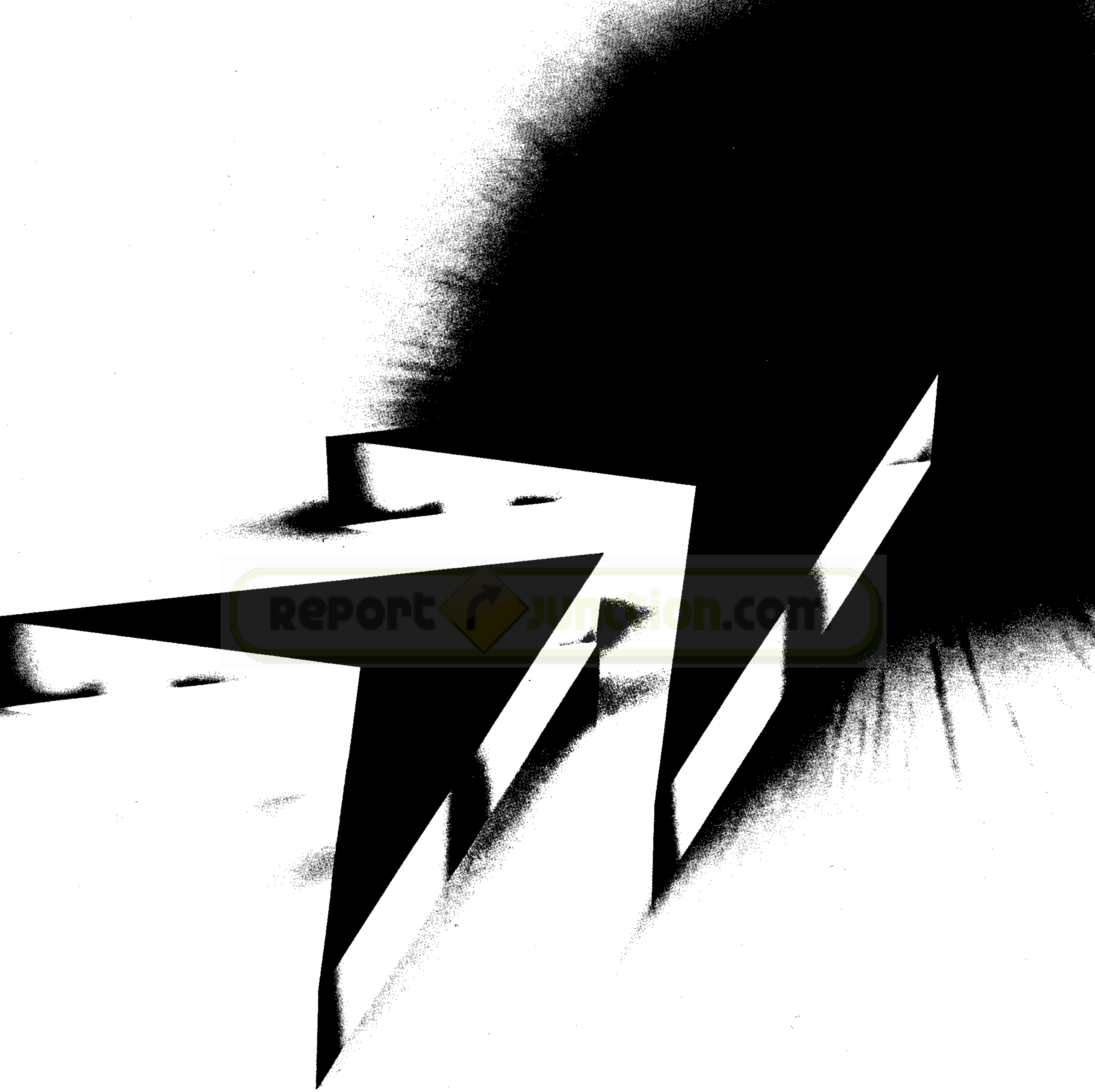
EVEREADY



Annual Report 2008-2009

Dear Shareholders,

The financial statements for the last year indicate happy outcome and vindicate your Company's efforts to turn around from an extremely challenging business environment of the last 2 years to the current year's improved position. It is all the more encouraging that this step up has come at a time when the economy was in a down turn.

The declining trend in consumption pattern in dry cell batteries seems to have finally been arrested. Though the year as a whole saw a decline of 8 % in volume, the current trends indicate a gradual return to stability.

Battery consumption is ultimately a function of population of devices which run on batteries. Flashlight is considered to be a key device using batteries, and is incidentally an important product segment of your Company. The marvelous work being done by your Company in marketing of this product is not only good for profitability – but is also good for higher battery consumption.

Flashlights volume grew by 84 per cent and revenue grew by 66 per cent in the current year. This excellent growth was fuelled by the new generation LED torches, which were pioneered at this scale by your Company in the Indian market.

There are more exciting developments in the offing in the area of portable lighting solutions with the recent launch of the 'Homelite' range of products, which offer unique lighting solution in homes in the absence of electricity.

Contributions from other products like packet tea, insect repellents and lighting products were healthy. These new products continue to leverage your Company's existing brand and distribution and continue to play a key role in improving scale and profitability of your Company's business.

Throughout the challenging environment of the recent past and also in the current year, your Company was able to maintain its market position and this was possible due to its initiatives on branding and distribution. Fresh plans in marketing and new product offerings are on the anvil and next year's operations will benefit from the same.

I firmly believe that the difficulties of the recent past are well behind us. The path to further improvement is well laid out and it will be duly walked. Each of the key business segments – primary batteries, rechargeable batteries, flashlights, packet tea, lighting products and insect repellents – will contribute to the overall scale and profitability of the Company.

I am also happy to state that such quick turn around from a difficult situation was possible due to your Company's belief in following fundamentally sound business processes. These will continue to provide shareholder value in the years to come.

We are in the midst of a global down turn. India also has not been able to escape it altogether with its growth rate slowing down compared to the past recent years. However, there are signals in the economy that a recovery process has already started. The improvement in the economy will further enhance your Company's business.

I wish to end this note by mentioning a few groups of people who provide the foundation to this Company. I would like to mention the Company's employees who are continuously endeavouring to make it a more valuable one. I also wish to thank all our customers and vendors who have stood by us. Lastly, very special thanks to all shareholders for their faith and spirit.

With warm regards

B.M.Khaitan
Chairman

Corporate Information

Board of Directors

Mr. B. M. Khaitan
Chairman (Non-Executive)

Mr. D. Khaitan
Executive Vice-Chairman and Managing Director

Mr. V. Bhandari
Mr. S. R. Dasgupta
Mr. S. Goenka
Mr. A. Khaitan
Mr. B. Mitter
Mr. D. A. Nanda
Mr. P. H. Ravikumar
Mr. V. Sridar
Non-Executive Directors

Mr. A. Saraf
Nominee of ICICI Bank Limited

Mr. S. Saha
Wholetime Director

Sr. General Manager – Legal & Company Secretary
Mrs. T. Punwani

Auditors
Deloitte Haskins & Sells

Registered Office
1, Middleton Street
Kolkata - 700 071
West Bengal, India
Phone : 91-33-22883950
Fax : 91-33-22884059

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Fax : 91-33-24864673

www.evereadyindustries.com

Contents

Report of the Directors

For the financial year ended March 31, 2009

Your Directors are pleased to present the Annual Report, together with the audited Accounts of your Company for the financial year ended March 31, 2009.

Review of Performance

Financial results are summarized below :

(Rs. in Crores)

	2008-09	2007-08
Net Sales	**857.33**	847.18
Other Income from operations	**3.16**	4.48
Profit / (Loss) from sale of real estate	–	(1.10)
Total Income	**860.49**	850.56
Total Expenditure adjusted for increase/decrease of stocks	**778.83**	784.90
Provision no longer required	**(1.95)**	(9.64)
Profits before Depreciation, Interest and Taxation	**83.61**	75.30
Depreciation	**24.94**	27.63
Interest and Finance Cost	**40.70**	52.08
Profit/(Loss) before Taxation	**17.97**	(4.41)
Provision for Taxation including Fringe Benefit Tax	**(1.43)**	14.91
Profit/(Loss) after Taxation	**19.40**	(19.32)

Net sales for the year were marginally higher (by 1 %) over the previous financial year. However, Profit before Depreciation, Interest and Taxation (PBDIT) was higher by 11 % at Rs. 83.61 crores as compared to Rs.75.30 crores in the previous year. This progress coupled with your Company's improved financial position - entailing lower charges on account of interest - resulted in Profit after Taxation at Rs.19.40 crores for the year compared to the net loss of Rs.19.32 crores in the previous year – signifying a 200 % change to the positive.

This improved performance was contributed by overall improvement in operations, cost containment, a gradual decline in raw material prices, lower incidence of excise duty and lower financing charges due to reduction in the borrowing level.

Dividend

Your Directors considered it prudent not to recommend any dividend for the year under review as a measure of conservation.

Operational Review

Batteries and Flashlights

Batteries went through significant price increases to offset material cost push in the recent past. Cumulative price increases for the various battery types ranged between 20 per cent and 50 per cent. This met with stiff consumer resistance and demand started slowing down. Unfortunately, the price increases had to be persisted with due to input costs continuing to prevail at high levels. This de-growth was most pronounced in 'D' size batteries, which is mostly consumed in the price sensitive rural segment.

This trend of de-growth continued to prevail during this financial year. Current year's volumes stood at 92 %. However, there are now signs of the market stabilizing without any further significant erosion.

This phenomenon of volumes being affected was not unique to the Company but was experienced by the market as a whole. The Company's market share remained by and large at the same position. 'Eveready' – 45.3 % : 'Powercell' – 5.8 % : Total – 51.1 % (AC Nielson : April 2008 - March 2009).

Similar pricing measures were also necessitated in the flashlights business and the phenomenon of consumer resistance to these was also very significant. Similar to the trend in batteries, flashlights business also experienced de-growth of volumes. The impact was most significant in the 'brass' segment of flashlights – predominantly used in the rural areas.

As a mitigation measure and with a view to giving consumers a value-for-money option, the Company introduced a new class of flashlights. This new segment has popularly come to be known as the 'LED' segment due to usage of LED bulbs being used as the light source. The Company has been at the forefront of introduction of this new segment and has encouraged consumers to take to it due to the value proposition of lower battery consumption.

Initially introduced as a value offer, this segment has now started offering life-style products. Usually in plastics, these come in diverse styling & colour, and are offering choices to consumers across the aesthetic range and several price points. These have become the standard for flashlights in the country.

From the Company's perspective, this measure is positive. The brass flashlights were profitable and were good for consumption of D size batteries but remained for long period of in-use with consumers. The new LED torches are equally profitable and displays much lower in-use period and is good for battery consumption (mainly AA). Current trends indicate that these flashlights are increasing overall torch user-ship significantly. Being energy efficient these have longer replacement cycle – however once the cycle sets in it will be positive to overall battery consumption.

The LED flashlights were introduced at the beginning of the last financial year. The improvement caused by it is reflected in the growth of overall flashlights volumes at 84 % over the previous year.

In another significant product development, your Company has very recently launched a new line of utility products under the 'Homelite' range. These products will light up Indian homes in the absence of electricity. Initial consumer enthusiasm seems to indicate that this range of products should translate to a major business segment for your Company in the future.

Your Company believes that the difficulties experienced in batteries and flashlights businesses have been suitably tackled. There has not been any change in the basic fundamentals of these products. The demand drivers continue to be the same and the Indian market continues to offer major potential for growth being a consumer of perhaps the lowest number of batteries and flashlights in the world. The recent downturn related to a severe cost push and consequential price hikes, which the consumers were not able to absorb immediately. However, it now appears that after the initial difficulty in adjusting to the new high cost regime, the market is coming back to consumption levels as determined by fundamental demand.

It is also worthwhile to note that in the current year, material prices, most significantly that of zinc, gradually softened. This along with relief provided through lowering of excise duty, resulted in margin expansion.

The pillars behind your Company's sustained good performance over time continue to be its fundamental strengths on distinct quality edge, penetrative distribution and effective marketing. These strength areas will eventually take the Company to a path of sustainable growth and accordingly these were persisted with during the year under review.

The manufacturing operations of your Company continued to focus on total quality management, safety, energy conservation and cost control. This helped your Company in achieving efficiency in the manufacturing function.

Operations at the manufacturing facility at Cossipore, Kolkata were suspended from September 4, 2008, due to unjustified and illogical demands by a section of workers and in the face of a very aggressive stand taken by them. This however had no impact on the operations of the Company, as supplies to the market were met by other units.

Operations were also suspended at the manufacturing facility at Hyderabad, the facility being surplus to the Company's needs. A VRS scheme agreed with the Workmen's Union has been opened in April 2009 and workers have started opting for VRS.

Your Company's Noida unit was declared winner of Green Tech Foundation's Silver Award in engineering sector for outstanding achievement in Safety Management.

Packet Tea

The packet tea business continued with its steady performance through leveraging of the distribution network of the Company. Current share of the market stands at 2 – 8 per cent in the various markets of the country. Sales volumes were lower by 7 per cent as compared to that of the previous year in a very competitive market scenario and also on account of your Company's decision not to push marginal sales. The year's turnover was however higher by 5 per cent at Rs.81.67 crores against Rs.78.03 crores last year.

Lighting Products

The Company started distributing compact fluorescent lamps (CFL) through the Company's distribution network during the previous year. The launch of the products took place in June 2007. The products were received quite enthusiastically by the market.

The Company's distribution which is at a tangible differentiation from usual electrical trade, and brand 'Eveready' creates a long term value-enhancing proposition in this business. However, the results of the current year did not show improvement from the previous year mainly due to supply problems faced as supply sources got finalized and stabilized during the year. Overall market conditions were also disturbed during the last part of the current year due to anti-dumping being imposed against Chinese & Vietnamese products and due to certain proposed changes in mandatory specifications. The market is however now returning to normalcy.

It is expected that in the next financial year the full potential offered by this business will be optimally harnessed. The Company will now focus in increasing level of this business segment. As a measure of expansion of range, the ordinary GLS bulbs will be launched in the next financial year.

The current year's turnover was at Rs.36.38 crores against Rs.44.22 crores in the previous year.

Insect Repellents

The coverage of Mosquito Coils and Liquid Vaporizers over the target markets across the country was crystallized during the current year. The trade and consumer response to these products were encouraging. The business is still in a nascent stage – with challenges being faced in sourcing. Current market share varies between 1 per cent and 3 per cent in the target markets. Current year's turnover was at Rs.12.18 crores against Rs.9.65. crores in the previous year.

Transfer of lease and reduction of debt

The Company had entered into an MOU on August 29, 2007 with Housing Development & Infrastructure Limited (HDIL) for the transfer of its leasehold premises at Navi Mumbai for a consideration of Rs.115 crores. The Company received Rs.61.50 crores as Earnest Money Deposit and advance during the previous year.

The balance amount was received during the current year, thereby in receipt of the full sale consideration. The proceeds were utilized for repayment of debt, which resulted in reduced interest cost.

However, it may be noted that the income effect for the transfer has not yet been recorded in the current year's accounts and this will be done in a following period on completion of relevant formalities.

Prospects

The financial results for the year were very encouraging and vindicated your Company's efforts. This has to be read in the perspective of the current challenging environment of the overall economy.

Despite the difficulties faced by the batteries and flashlights businesses in the recent past, it is firmly believed that there has not been any change in the basic fundamentals of the market. The demand drivers and the potential offered by the presently low-consuming Indian market will continue to offer major potential for growth. Also, after the consumer's initial difficulty in adjusting to the new high cost regime, the market seems to be coming back to the consumption levels determined by fundamental demand.

The tremendous growth seen in the flashlights business is seen to be sustainable. The newly introduced 'Homelite' products will spur turnover growth and profitability.

Other products like packet tea, insect repellents and lighting products are poised for a success in the future. These new products leverage your Company's existing brand and distribution and will play a key role in improving scale and profitability of your Company's business.

Input costs have eased out as a result of which margins have expanded. While input costs may firm up during the next financial year as the overall economy recovers, it is not expected that these will do so in a very significant manner. Thus, no major threat to the margins is seen in the immediate future on this count.

As the economy starts its move to gradual improvement, overall benefit should also percolate to your Company's sales volumes.

All these factors are expected to combine for a further improved performance.

Issue of Convertible Warrants on preferential basis

Your Company allotted 45,00,000 convertible warrants to Williamson Magor & Company Limited (a Promoter Group Company) on October 17, 2007. Each warrant carried an option of conversion into one equity share of Rs.5/- at a premium of Rs.53/- per share, totaling to Rs.58/- per share. The option – last date for which was April 16, 2009 – was not exercised and thus the amount equal to 10% of the underlying value of the shares at Rs.2.61 crores stood forfeited.

Finance

Tight control was kept over the finances of your Company, with accent on reduction of debt. This and strict management of working capital helped your Company save interest charges.

Your Company met its financial commitments in servicing debt and repayments thereof in a timely manner. Capital expenditure programme – mainly that related to making the new generation LED flashlights available to the market – was fully met.

The current year's profits were utilized to off-set carried forward loss, hence there was no transfer to reserves.

Employee Relations

One of your Company's key strengths is its people. Relations with employees remained cordial and satisfactory. Your Board would like to place on record its appreciation of employees for their contributions to the business.

Your Company believes in a system of Human Resource Management which rewards merit based performance and playing an active role in improving employee skills. Actions during the year under review were supportive of this policy.

Long-term wage settlements were concluded at the Lucknow and Maddur units.

A statement of particulars of employees as required under section 217 (2A) of the Companies Act, 1956 forms a part of this report as a separate Annexure. In terms of section 219 (1)(b)(iv) of the Act, this Report is being sent to all Members without the said annexure. Any member interested in taking inspection or obtaining a copy of the statement may contact the Secretary of the Company at its Registered Office during working hours.

Public Deposits

Your Company does not have any public deposit scheme and has repaid all Fixed Deposits that have matured and were claimed by depositors under the earlier scheme. Rs. 4.25 lakhs remained claimed but unencashed by the depositors as on March 31, 2009.

Exports and Foreign Exchange Earnings and Outgo

During the year under review, your Company exported batteries of 64.35 million pcs and flashlights of 440.09 K pcs against 62.16 million pcs and 153.67 K pcs respectively in 2007-08.

Rs. Lakhs

	Year ended 31.03.2009	Year ended 31.03.2008
Foreign Exchange Earnings	1,766.07	1,602.85
Foreign Exchange Outgo	10,963.73	8,830.17

Conservation of Energy and Technology Absorption

A statement giving details of conservation of energy and technology absorption in accordance with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, is annexed.

Directors' Responsibility Statement

Pursuant to Section 217(2AA) of the Companies Act, 1956, the Directors state as follows:

1. That in the preparation of the annual accounts for the financial year ended March, 31, 2009, the applicable accounting standards had been followed with no material departures;
2. That the Directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period;
3. That the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. That the Directors had prepared the annual accounts on a going concern basis.

Directors

In accordance with the Articles of Association, Mr. B.M. Khaitan, Mr. A. Khaitan and Mr. S. R. Dasgupta will retire by rotation at the forthcoming Annual General Meeting, and being eligible, offer themselves for re-appointment.

Mr. A. Saraf has been appointed as a Nominee Director of ICICI Bank Limited effective August 1, 2008, in place of Mr. P.H. Ravikumar.

Mr. P. H. Ravikumar and Mr. V. Sridar were appointed as Additional Directors by the Board effective August 1, 2008. In terms of Article 116(1) of the Articles of Association of the Company Mr. P. H. Ravikumar and Mr. V. Sridar hold office until the forthcoming Annual General Meeting. Notices in writing under Section 257(1) of the Companies Act, 1956 have been received from Members signifying their intention to propose Mr. Ravikumar and Mr. Sridar, respectively for election to the office of Director.

The above re-appointments of Mr. Ravikumar and Mr. Sridar are subject to the approval of the shareholders at the forthcoming Annual General Meeting.

On a Reference Application made by the Central Government to the Company Law Board (CLB) under Section 408 of the Companies Act, 1956, the CLB, by an order dated December 20, 2004 directed the Central Government to appoint three Directors on the Company's Board for three years. As the CLB's order suffers from various legal infirmities, the Company, based on legal advice, has challenged this order of the CLB before the High Court at Calcutta, which has, by an interim order, stayed the operation of the CLB's order. The stay is continuing.

Auditors

Messrs. Deloitte Haskins & Sells retire as Auditors at the conclusion of the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment.

Management Discussion and Analysis Report and Report on Corporate Governance

As required in terms of the Listing Agreement with Stock Exchanges a Management Discussion and Analysis Report and a Report on Corporate Governance are annexed.

For and on behalf of the Board

Kolkata **B. M. Khaitan**

27th April, 2009 *Chairman*

Management Discussion & Analysis

The Business

Eveready Industries India Limited (EIIL) is one of India's most renowned and enduring FMCG companies, with the operations entrenched in the country for over 100 years. Over the decades, it has strengthened its position as the leader of the dry cell batteries and flashlights markets in the second most populous country in the world.

The Company's contemporary product portfolio comprises the following:

- Dry cell batteries, flashlights and rechargeable batteries under brand 'Eveready', 'Powercell' and 'Shakti'.
- Packet tea under brands 'Tez', 'Jaago', 'Premium Gold', 'Classic'.
- Insect repellents under brand 'Eveready Poweron'.
- Compact Fluorescent Lamps (CFL) under the brand 'Eveready'

The operations started in India through import of dry cell batteries and then marketing the same across major cities. This led to setting up of manufacturing facilities and a distribution network across India. Subsequently, this manufacturing presence was integrated forward into the manufacture and marketing of flashlights - a leading device category consuming batteries.

Over time, the Company evolved into the largest dry cell battery player in India with a market share of 51.1 per cent (Source: AC Nielsen) and a very dominant flashlights player with over 76 per cent share in the organised market (Source : Company estimate).

The Company possesses one of the widest and deepest distribution networks among FMCG companies in India, reflected in its premium brand equity and customer loyalty. To leverage the growth of this pan-national distribution pipeline, the Company extended its product category to the marketing of packet tea, lighting products and insect repellents.

The Company's existing share of the packet tea market is limited. However, this product category provides a sustainable turnover thereby adding scale to the Company's operations. It is also expected that the business can and will be run in a profitable manner.

Insect repellents were launched by the Company in the recent past. The operation is still in its learning phase, but the Company expects to garner a reasonable share in this market within a foreseeable time frame based on its rural reach and tangible differentiation from other products available in the market.

The Company entered the lighting products market with CFLs during the previous year. While the current year was spent in tackling the various dynamics of this new business, the Company remains excited over the business prospects and plans to be a significant player in this product category. As a measure of expansion of range, GLS bulbs are being launched in the next financial year.

With a robust product outlook and a proactive management, EIIL expects to strengthen its presence across these products through increasing value and volumes in the future.

India Economic Overview

The off-take of the Company's products is naturally influenced by the health of the Indian economy.

According to reports, the country's economy was estimated to have grown at 6.5 per cent during the year under review. This was lower than growth recorded in the immediate past few years. However, this may be considered a reasonably healthy growth in the midst of serious global down turn where almost all major economies have turned negative.

The country faced the challenges of down turn like the rest of the world. However, India could take the problem in its stride – albeit a slightly lower growth rate for the year. This was possible due to strong domestic demand and relatively lower dependence on exports. Given the usual positives & negatives - in the overall - the economy could be considered resilient. Signs are already visible that the recovery process has started and India's return to its usual high growth pattern will take place even before many other economies recover from the down turn.

Indians will continue to experience the power of higher income levels and affluence. This in turn will ignite consumerism. The FMCG sector is set to take full advantage of this.

FMCG Industry in India

The past proved to be challenging for India's FMCG sector on account of volatility in agricultural incomes, increased competition, price discounts and the growing affordability of lifestyles and durable products. This led to concerns on retaining the share of consumer wallet for FMCG goods.

However, this trend has significantly changed during recent times, with many FMCG categories showing healthy growth. The sectoral outlook continues to be positive on account of the projected increase in per capita income. It is now firmly believed that the resilience and health of the economy will finally have its impact on per capita consumption pattern. All parameters seem to indicate that this trend is sustainable over the coming years.

Batteries

Industry size and structure

The Indian market for dry cell batteries is now estimated at 2.2 billion pieces by volume and Rs. 14 billion by value. The battery market has only a few players. Out of which EIIL has a market share of 51.1 per cent between Eveready and Powercell brands (Source: AC Nielsen), and the next player lags by more than 20 per cent points.

During the year under review however, the market continued to suffer under the adverse impact of earlier years' pricing actions to neutralize unprecedented rise of the input material costs, particularly that of zinc. A significant part of the dry battery market is in the rural and poorer segments of the economy, which are resistant to stiff price increases. The consumers reacted adversely to these price increases and resorted to reducing or deferring consumption.

Volumes were also affected by a contraction in consumer demand on account of the economy's growth slowing down somewhat compared to the recent previous years.

This resulted in a market de-growth of about 8 per cent in battery volumes during the year, which came serially after de-growth in the previous 2 years.

This phenomenon was most significant in the 'D' size battery segment, which had to bear the highest impact of the cost push. These batteries are predominantly used in the price-resistant rural sections of the society and saw the largest quantum of volume drop. Other battery categories had marginal growth or remained stagnant.

Latest trends however, indicate that the volumes are getting back to normal pattern and the market seems poised to stabilize.

The segment pattern within the market underwent change on account of the relative growth phenomenon as explained above. The share of the principal battery categories ended at the year-end as per the table below.

Battery category	% of market
D	28.7
C	0.7
AA	65.1
AAA	5.5
Total	**100.0**

The above is quite similar to the pattern seen globally. To that extent it may be said that the recent phenomenon has resulted in the Indian market in aligning itself to the global trend as far as segment share is concerned.

The split of technology within the dry batteries market remained constant with zinc carbon batteries virtually possessing the entire market with 99 per cent share. The alkaline batteries have minimal share of the market at 0.5 per cent and are present in only some premium urban outlets. Rechargeable batteries, which have the balance 0.5 per cent of the market seems to have made its mark on a loyal customer base but remaining stagnant.

Consumption of batteries is driven by growth in the offtake of its applications. A growing need for portable power and the advent of a number of battery-operated gadgets catalyse consumption. Since these address everyday use, batteries have enjoyed a non-cyclical demand and have been largely untouched during the past general downturns. The phenomenon of consumption reducing on account of large-scale price increases is unique to the immediate past. This phenomenon is expected to be only a temporary one.

Performance review

Volume in the battery market in India was estimated to have reduced by 8 per cent. Sales volume of EIIL also reduced by a similar margin. As a result, the market share pattern remained by and large consistent with the previous year – with EIIL remaining at 51.1 per cent. (Source: AC Nielsen).

EIIL's product mix is quite similar to that of the market. In the year under review, 'D' size had a share of 31.9 per cent, and 'AA' at 61.3 per cent, 'AAA' at 6.2 per cent and 'C' at 0.6 per cent.

Marketing and distribution

The Company continued to put emphasis in strengthening its distribution network. Of the total FMCG universe of 7.3 million outlets, penetration of batteries stocking universe was at 65 per cent. Eveready batteries were stocked in 66 per cent of such outlets, higher than any other battery brand by a wide margin.

Eveready's brand campaign featuring continued to add positive qualities to its brand value. EIIL will persist with these efforts to further strengthen its brand salience.

Opportunities and threats

India has a low per capita consumption across a number of product groups, batteries included, indicating an inherent potential for growth. Since dry cell batteries represent the cheapest source of portable power, consumption is expected to increase over time. Besides, growing income levels, changing lifestyles and an increased need for convenience have resulted in proliferation of gadgets (remote controls, torches, toys, cameras, FM radio sets and portable music systems) run by batteries.

The 'D' segment batteries are driven primarily by a need for light (flashlights) and entertainment (radio) in rural India. The proven durability and quality assurance of the Company's brand will continue to capitalize on this longstanding opportunity. Growth in the 'AA' segment will continue to be fuelled by proliferation of clocks, remote control devices and growth of newer devices like the new generation 'LED' flashlights across both rural and urban India. The new 'AAA' segment will take higher share of the battery market, with introduction of smaller size devices.

Besides, the introduction of high drain equipment (digital cameras and CD players) is expected to enhance the demand for more powerful rechargeable batteries. The Company made its presence felt in this segment by becoming the first organized entrant. Rechargeable batteries continue to be one of the drivers of the Company's revenues.

Batteries do not face any serious threat because they are items of recurring use, providing portable energy at an affordable cost. EIIL is adequately protected from competition due to its enduring brand equity, tangible quality and ease of availability due to its deep distribution.

Cheap imports have also not proved to be a threat because of their inherently poor quality. Initially – about 8 years back - these low cost products did invite first-time use on the basis of the price differential but could not garner repeat consumption on account of poor quality.

Alkaline batteries, popular in the West, also do not pose a threat because of price-sensitive nature of the Indian consumer leading to a mere 0.5 per cent share of the market despite being present for over 14 years. In any case, EIIL has presence in this segment and will be able to participate if the market provides indication of an opportunity.

Given the overall positive scenario, a tangible threat to battery consumption lies in making the product unaffordable to poorer segments of the economy, as was evidenced in the year under review and in the previous year (explained more fully in the next section).

Risks and concerns

Raw material prices have come off their peaks. With the recovery of the global economy being on the anvil, it is likely that prices will again escalate – though these may not reach the impractical levels seen during the boom of the recent past years. Thus, possibility of material cost increase represents an area of concern.

Normal cost increases can be easily absorbed – mainly by passing the same to the market. It is only when quantum of such increase goes to kind of levels seen about 2 years back it poses a risk to the business. This should be read in the perspective of the distressing effect high material costs had on this market in the recent past. However, having gone through that experience, EIIL is now in a much better position to tackle this risk. Also, this will be a general phenomenon, not limited to EIIL alone.

There has, however, not been any change in the basic fundamentals of the business till now. The demand drivers continue to be the same and the Indian market continues to offer major potential for growth being a consumer of perhaps the lowest number of batteries in the world.

As was expected, after the initial difficulty of adjusting to the new high cost regime, the market is gradually coming back to consumption levels as determined by fundamental demand.

The Company has a well documented Risk Management System, which is reviewed by an active Steering Committee appointed by the Board of Directors. The risk registrar does identify a few risks, which are purely routine in nature and none of any significant impact. There is a mitigation system in place which addresses these risks as part of routine management process.

Flashlights

The flashlight market is shaped by EIIL because of its dominant market share position at over 76 per cent (Source : Company estimate) in the organized segment.

The segments in the flashlights market were traditionally determined by the material used for manufacturing the flashlight viz., Brass, Plastic, and Aluminum.

Historically, the 'brass' segment was the most popular among consumers – especially in the rural areas. However, in the recent past prices of brass flashlights had to be increased manifold on account of the cost push of the underlying base metals – zinc and copper. This was thoroughly resisted by the consumers and brass flashlights volumes started de-growing significantly over the last 3 years.

As a mitigation measure and with a view to giving consumers a value-for-money option, the year under review saw the advent of the new generation 'LED' flashlights, so named popularly due to usage of LED bulbs being used as the light source. EIIL has been at the forefront of introduction of this new segment and has encouraged consumers to take to it due to the advantage of lower battery consumption in these flashlights.

This development has breathed new life to this business with volumes making major strides both in number and growth since last year. Even in the current year, EIIL notched up volume and value growth of 84 per cent and 63 per cent respectively.

The growth in sales numbers of 'LED' flashlights is leading EIIL to believe that these products are growing user-ship. Also, the in-use period of these flashlights being considerably lower than the traditional metal flashlights, replacements will be more frequent. As a result, these factors will also provide boost to battery demand.

'LED' flashlights now occupy 88 per cent of the total volume sold by EIIL. The incandescent bulb flashlights across all segments – brass, aluminum & plastics – account for the balance 12 per cent.

As mentioned earlier, the industry is dominated by EIIL. There are a few other players, none of whom have any significant position and no new trend seems to be emerging in this respect.

Performance review

During 2008-09, flashlights volume of EIIL grew by 84 per cent. Value growth was at 66 per cent. This business segment is now the most profitable of all businesses run by the Company.

Opportunities and threats

There was a temporary setback for this product category in the recent past caused by assignable reasons already explained. India's flashlights market is expected to grow at a steady pace. A vast dormant population (almost 45 Million rural households) of non-users represents a large opportunity for flashlights, which the Company expects to use over the foreseeable future.

Growth in urban areas – where flashlight ownership is less common – is the other opportunity area. Vast parts of urban areas now face periodic power cuts and flashlights provide a lighting solution in those times.

The recently launched 'Homelite' products meant to give lighting solutions in the absence of electricity also provide great opportunity for growth.

Risks and concerns

Volumes which have been growing at a significant pace over the last 2 years have already created a large base. There is a concern whether such growth rate is possible to be sustained over a longer term. The mitigation measure lies in how EIIL handles consumer communication and value offers.